Developing and Supporting Saskatchewan Co-operatives

A Director's Handbook

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Co-operatives in Saskatchewan: Director's Handbook

This Directors Handbook has been developed to assist co-operative board members to be more effective and to better understand their roles and responsibilities.

It is important that this handbook is used in conjunction with *The Co-operatives Act, 1996* as well as the specific Articles of Incorporation and the bylaws of the individual co-operatives. References to specific sections of the Act are noted throughout the handbook for easy reference and follow-up. These references are not expected or intended to be exhaustive where the Act is concerned.

Co-operatives incorporated under the *New Generation Co-operatives Act* or other co-operative legislation should refer to similar sections of respective acts.

Additional information is available from Regional Co-operative Development Co-ordinators, Saskatchewan Economic and Co-operative Development. We welcome your comments about the handbook and your suggestions for additional subjects in the series. Comments, suggestions and requests for information should be directed to:

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We also invite you to visit Saskatchewan Economic and Co-operative Development on the Internet at **http://www.gov.sk.ca/econdev** and to contact us through our Web site.

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The Co-operative Structure

The main purpose of a co-operative is *to provide goods and/or services to its members.* However, there are many other benefits to forming a co-operative.

- Through their democratic structure, co-operatives enable their members to have direct input into the policies and direction of their organization.
- Profits generated by co-operatives usually stay in their community.
- Incorporating as a co-operative gives permanence to the organization. Unlike a sole proprietorship or partnership, operation does not cease with the retirement or death of an owner or partner.
- The democratic structure encourages people to work together.
- Control is kept in the hands of users, partners or owners.
- Co-operatives help to develop the knowledge and skills of their members.
- Co-operatives provide a tested and proven organizational approach to managing and coping with economic and social change in the community.

The following definition, values and principles were established by the International Co-operative Alliance in 1995.

What is a Co-operative?

A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise.

Values

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others.

Principles

The co-operative principles are guidelines by which co-operatives put their values into practice.

1. Voluntary and Open Membership

Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control

Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote), and co-operatives at other levels are also organized in a democratic manner.

3. Member Economic Participation

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence

Co-operatives are autonomous, self-help organizations, controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, Training and Information

Co-operatives provide education and training for their members, elected representatives, managers and employees so they can contribute effectively to the development of the co-operative. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.

6. Co-operation Among Co-operatives

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for Community

Co-operatives work for the sustainable development of their communities, through policies approved by their members.

Co-operative Governance

Boards, Officers and Committees: Their Roles and Responsibilities

Co-operatives have a democratic control structure that is different from other corporate organizations. This structure ensures that each member has one vote regardless of the amount of investment s/he holds in the co-operative. Each member has an equal voice and an equal responsibility to participate in the organization.

Members (Part X)

Members are the most important part of a co-operative, and the co-operative exists to meet their needs. Unless the bylaws provide otherwise, an individual who is 16 years of age or older is eligible to become a member.

Members have a duty to:

- use the services provided by the co-operative.
- help to finance the co-operative;
- attend meetings and other co-operative activities;
- express concerns and recommendations to management and the board of directors;
- promote the principles and practices of co-operatives;
- elect directors and participate on committees and in other activities of the organization.

Members have direct input into the policies and direction of their organization through the election of the board of directors. In some cases, all members could be on the board but usually the membership is too large to meet to consider all decisions. Accordingly, the membership delegates authority for decision-making between general meetings to a board of directors.

Board of Directors (Parts III & IX)

Roles and Responsibilities

It is important that board members learn and understand their roles and responsibilities early in their term. These include the development of policy, directing the activities and operations of the co-operative, and acting as a liaison with the public and the membership in accordance with *The Co-operatives Act, 1996*, the Articles of Incorporation, and the bylaws of the co-operative. A director, as stated in the Act, must be at least 18 years of age. Roles and responsibilities include the following elements:

- Stewardship — The management of the co-operative's activities, assets and image. Individual directors and the board collectively have a duty to direct the co-operative honestly and in good faith, using the care and diligence of a reasonably prudent person.
- Financial Management — The board and individual directors are responsible for the financial affairs of the co-operative and for its financial transactions. They are responsible for funds the co-operative raises, accepts and disperses. In overseeing financial management and transactions, the board and individual directors are obligated to exercise the judgement that a reasonably prudent individual would exercise in regard to his/her own funds.

- Planning, Implementation and Evaluation — Responsible for planning, implementing and evaluating policies and activities which fulfil the purpose(s) for which the co-operative was established as described in the Articles of Incorporation (i.e. its "objects") and the objectives of the members as determined through annual general meetings.
- Communications — Both written and verbal, enables the membership to understand and support the actions of the board. The board must keep in touch with members, especially when establishing goals and planning activities.

Board of Directors Meetings

As soon as possible after incorporation, an **interim board meeting** should be held so directors can discuss day-to-day operating policies, appoint officers, establish banking and financial arrangements, etc. (Section 97). **Regular board meetings** are normally held on an established schedule, often monthly, with pre-determined dates being desirable. The president may call a meeting of directors at any time. The president must call a directors' meeting within two weeks of receiving a written request from at least two directors, unless the articles or bylaws of the co-operative provide otherwise. A quorum for meetings of the board of directors is a majority of directors. The bylaws of a co-operative may provide for a quorum that exceeds these requirements.

Director's Liability (Sections 90, 92, 93)

Directors may be liable to the co-operative itself and to outside parties if they fail to:

- put the interests of the co-operative before their personal interests or the interests of others;
- be informed about and understand the business and affairs of the co-operative; and
- use their knowledge and expertise for the benefit of the co-operative.

Liability may occur as noted above due to either the action or inaction of a director in his/her capacity with the co-operative. It should be noted that the above list is not a definitive list of possibilities.

Directors may also be held personally liable for:

- misuse of the co-operative's property;
- condoning illegal or improper acts by employees, officers or other directors;
- declaring dividends which render the co-operative insolvent;
- wages of employees;
- deductions at source and premiums such as employees' income tax, unemployment insurance and workers compensation; and
- unpaid taxes such as income tax and GST.

Indemnification (Section 91)

Directors may purchase insurance to protect themselves from some of these liabilities, or the co-operative may indemnify directors against certain liabilities, (Section 91(1)). However, a co-operative may only indemnify a director where he or she has acted honestly and in good faith and, where applicable, had reasonable grounds for believing that the conduct at issue was lawful, (Section 90(10)). Therefore, a director will not be indemnified where the conduct at issue is dishonest or illegal. For example, a director will not be indemnified against theft from the co-operative.

Finally, a director may be deemed liable for a vote, resolution or approval cast or given whether or not they were in attendance at the meeting where the action was affirmed. The director's dissent must be entered in the minutes of the meeting or the absent director must deliver or send by registered mail a written dissent to the registered office of the co-operative within 14 days after becoming aware of the proceedings.

Management

Not all co-operatives hire a manager, but in most cases the board of directors delegates some responsibility to a manager or management committee. Management in a co-operative is a complex issue because it must be efficient and also allow room for the members' democratic involvement. Management is responsible for:

- managing the day-to-day business operations according to board policies;
- hiring and supervising staff;
- preparing and presenting reports on operations and issues to the board of directors; and
- promoting good public and member relations.

Officers (Section 94)

Following the annual general meeting, the board of directors meets to appoint officers. This is usually done through an internal election process. Under *The Co-operatives Act, 1996, (Section 94)*, every co-operative must have a president and a secretary. Co-operatives may have additional officers that are provided for in its bylaws or in a resolution passed by the directors. Normally, the officers include a president, vice-president, secretary and treasurer or secretary/treasurer. The president and vice-president of the co-operative must be directors of the co-operative, unless the bylaws provide otherwise. Officers of the co-operative should have knowledge of parliamentary procedure.

A. President

The president is appointed or elected through an internal election process by the board of directors. He/she provides leadership to the board specifically and the membership generally, and mentors or guides the directors in their own roles and responsibilities. Representing the co-operative and acting as its official spokesperson, the president's duties also include:

- Planning meetings and preparing agendas. The president presides over all executive, board and general meetings unless someone else is designated as chairperson.
- Assigning responsibilities, tasks and activities to the other officers, to committees, and to the co-operative's management, where appropriate.
- The president of a co-operative is entitled to vote at all meetings.

B. Vice-President

The vice-president assumes the duties of the president in his/her absence. The vice-president often chairs special committees of the board and performs other duties as designated.

C. Secretary

The secretary is responsible for maintaining a written record of all aspects of the board's and the co-operative's operations. He/she should have good writing, note-taking, and summarizing skills, as well as knowledge of parliamentary procedure. Typical responsibilities include the following:

- handling correspondence of the co-operative;
- assisting with the preparation of agendas for board, executive and annual general meetings, and providing advice on meeting procedure;
- sending meeting notices to directors and members;
- keeping minutes of meetings and having them approved at the next meeting;
- presenting a summary of correspondence at meetings (the full correspondence being on hand for reference);
- keeping a list of all committees and members;
- keeping an up-to-date membership list;
- having custody of the seal of the co-operative, if any; and
- making meeting and physical set-up arrangements.

Preparing Minutes (Section 78)

The secretary is responsible for recording and keeping the minutes of all meetings. Through the minutes, the secretary ensures that a permanent record of the board's decisions and actions has been kept and that an accurate history of the co-operative and its members is maintained. The minutes are a legal record of what happened and not the thoughts or feelings of members or officers.

Meeting minutes should be signed by the secretary on submission and by the president upon approval.

Following is a checklist for keeping minutes at a meeting:

- identify the type of meeting;
- identify the members in attendance and, when appropriate, those absent;
- indicate the names of staff and visitors attending;
- record the date of the minutes presented for adoption;
- record all motions presented for approval: minutes, decisions, reports, financial statements and resignations presented to the board;
- record all motions moved, seconded and carried, or defeated;
- record the writer, topic and results of correspondence;
- record the acceptance and retirement of members by motion;
- record the motions to approve the purchase or sale of fixed assets;
- record all motions to approve financing arrangements;
- ensure that the minutes are signed by the secretary when prepared, and by the president when adopted;
- include all required attachments with the minutes when they are distributed;
- attach the attendance register to the minutes of general membership meetings;
- appoint signing officers by name rather than position; and
- store the original copy of the minutes in a book or binder.

D. Treasurer

The treasurer is responsible for ensuring financial records are maintained for the co-operative and is accountable through the board to the co-operative's members for its financial situation. The treasurer's duties include the following:

- preparing the co-operative's budget, usually in collaboration with a finance committee and staff;
- handling financial transactions and exercising signing authority on behalf of the co-operative;
- preparing financial statements and reporting on the co-operative's financial position to the board and the membership;
- recommending financial policies and procedures for the co-operative; and
- ensuring that the co-operative's year-end financial statements are audited by an external auditor and available for presentation at the annual general meeting.

E. Secretary/Treasurer

The role of the Secretary/Treasurer combines the duties of the two positions into one.

Committees

When the amount of work required to administer a co-operative grows beyond what the board of directors can handle, the board may decide to appoint committees to which tasks can be assigned. There are two types of committees, *standing and special*. *Standing* committees function more or less on a permanent basis to handle ongoing requirements. Examples include administration, finance and member relations. *Special* or *ad hoc* committees are normally appointed on a short-term basis to study unique issues or items of business, report findings, make recommendations on actions to be taken to the Board, and/or implement board decisions. The number and types of committees can vary from co-operative to co-operative.

Committees may also include representatives from the membership, management and staff. All committees should have written guidelines setting out duties and responsibilities.

General Meeting Requirements

First General Meeting (Section 102)

Within four months of incorporation, a co-operative must hold its first general meeting. All members are entitled to attend and vote at this meeting. Normal business includes adoption of bylaws, election of directors, and appointment of an auditor.

Annual General Meeting (Section 103)

A co-operative must hold an annual general meeting each year no later than six months after its fiscal year end. A suggested agenda includes:

- minutes of the previous annual meeting;
- reports by the president, treasurer, manager and committees;
- auditor's report;
- election of directors;
- resolutions;
- amendment of bylaws; and
- other business items.

Subject to the bylaws and the Act, the directors may, at any time, call **other general membership** meetings to conduct the general business of a co-operative. The directors may also call a special meeting of members (Section 104). A special meeting must be held on receipt of a written request specifying the purpose of the meeting and signed by members as follows:

- for a co-operative with 1,000 or more members, the lesser of 5 per cent of the membership or 300 members, but in no case fewer than 100 members;
- for a co-operative with fewer than 1,000 members, 10 per cent of the membership; and
- for a co-operative with a delegate structure, at least 25 per cent of the delegates.
- A quorum is the fixed minimum attendance necessary for the transaction of business at a meeting. For annual general meetings or special meetings of the membership, a quorum is the lesser of 15 members or 10 per cent of the membership. For a meeting of delegates, a quorum is 50 per cent of delegates. The bylaws of a co-operative may provide for a quorum that exceeds these requirements.

A special meeting may only deal with the matters specified in the notice of meeting.

Notices and Quorums (Section 105, 107)

Notice of meetings is required unless the articles or bylaws provide otherwise. A co-operative must provide a period of notice and means of giving notice of membership meetings that is sufficient to ensure each member, delegate or preferred shareholder has reasonable opportunity to attend the meeting and exercise his or her right to vote.

Most co-operatives state in either their bylaws or policies that notice for all general meetings must be given no fewer than 10 days in advance, and also require that notice be mailed to all members entitled to attend, or inserted in at least two issues of a newspaper circulated in the area served by the co-operative, and posted in a place that is prominent and accessible to members.

The notice of any special meeting is required to specify the reason the meeting is being called. Requirements for meeting location, notice, and timing for board meetings are determined by boards or set out in the bylaws of individual co-operatives.

Co-operative Documents and Record-Keeping

A co-operative is required to prepare and maintain certain organizational records at its registered office or at another place in Saskatchewan designated by the directors. This includes the registered copies of a co-operative's Articles of Incorporation and bylaws, amendments to these documents, and any other corporate documents. The minutes of all meetings of the membership, directors and committees should also be kept at this location.

Members, their agents and their legal representatives are entitled to examine and obtain copies without charge of all of these records and documents with the exception of the minutes of meetings of the board of directors. Following are the key attributes of these documents:

Articles of Incorporation (Section 7)

Articles of Incorporation set out a co-operative's legal name, financial structure, number of directors, purpose or objectives, and any restrictions on business. The articles may only be amended by a special resolution that requires a majority of at least two-thirds of the votes cast at a general meeting. Members must receive not fewer than 10 days' notice of the intention to propose the special resolution at such a meeting.

Proposals to amend the articles may be presented by the board or by any member of the co-operative. Amendments must be filed in the prescribed form together with the prescribed fee and approved by the Registrar.

Bylaws (Section 8)

Bylaws set out the basic rules and guidelines within the Act under which a co-operative is governed and operated. Except where the Act or the bylaws provide otherwise, members may, by simple majority at any annual or special meeting called for this purpose, make, amend, repeal, replace, or confirm any bylaws. Bylaws come into effect when two copies of the bylaw, certified to be true by the president and secretary of the co-operative, are filed with the Registrar of Co-operatives with the prescribed fee and approved by the Registrar.

Financial Requirements, Records and Reporting (Part XI)

To maintain a successful business operation, a co-operative must maintain accurate records of its financial operations, monitor and evaluate its past performance, and develop and implement budgets. A co-operative must comply with all financial requirements set out in *The Co-operatives Act, 1996.*

Financial Records

Accurate and timely financial records are essential to the successful financial management of any co-operative. These include records of all revenues and expenditures, cash flows, and capital purchases. These records should support the preparation of a monthly financial statement which should include comparisons to budget projections for review by the board.

Budgets

A budget is a financial planning and management tool that projects future financial requirements and performance of a co-operative. Normally, co-operatives prepare three types of budgets: operating, cash and capital.

Operating budgets are usually developed for each fiscal year, and project revenue, expenditures, and savings or losses. To obtain maximum benefit from an operating budget, co-operative boards and management should compare actual income and expense statements against budgeted projections on a monthly basis throughout the year.

Cash budgets are also prepared at the beginning of each fiscal year. The cash budget predicts monthly bank balances using estimated cash receipts and expenses. This is important because the timing of revenues and expenses do not always coincide, and cash budgets provide a basis for identifying borrowing requirements or opportunities for investing short-term surpluses.

Capital budgets are developed to support long term planning and management of a co-operative. These budgets address the co-operative's requirements for land, buildings, equipment and other capital purchases. Potential sources of capital include retained savings, additional member equity, member loans, sale of securities, and other forms of financing.

Financial Reporting

Appointment of an Auditor (Section 131-132)

At the first general meeting of a co-operative and at each subsequent annual meeting, members must appoint, by ordinary resolution, an auditor who is independent of the co-operative and is a member of a recognized accounting professional association or approved by the Registrar. A vacancy in the position of auditor may be filled by the board until the next annual general meeting.

Co-operatives with more than 300 members are required to have an audit committee comprised of at least three directors. This committee is responsible for reviewing financial records and all statements prepared in conjunction with the audit.

The Audit and Audit Report (Section 139)

After the fiscal year-end of a co-operative and before its annual meeting, the auditor must examine all records relating to its financial activities, report on the accuracy and correctness of these records, and prepare a statement of the co-operative's financial position including statements of revenue, expenditures and surplus or losses, plus a balance sheet setting out assets, liabilities, members' equity and/or reserves.

Annual Return (Section 143)

Each year, about 30 days before a co-operative's year-end, the Registrar will send an annual return form. The form, requesting the names of the directors, officers, auditor and other information, must be filed with the Registrar within 30 days after the annual meeting together with a copy of the co-operative's audited financial statement that has been signed by one director. The required filing fee must also be paid. Co-operatives whose articles or bylaws provide that earnings may be distributed to members are not required to file financial statements.

For additional information contact Saskatchewan Economic and Co-operative Development toll free at 1-800-265-2001. We also invite you to visit or contact us through our web site on the Internet at http://www.gov.sk.ca/econdev.

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